

# JLBC Fiscal Note

**BILL #** SB 1365

**SPONSOR:** Gowan

**PREPARED BY:** Hans Olofsson

**TITLE:** ~~citrus; fruit; vegetable; fund; posting~~ S/E: property tax; exemption; veterans; disabilities

**STATUS:** As Amended by Senate MABS

## Description

Under current law, a veteran with service-or nonservice-connected disability is eligible to receive a property tax exemption on their primary residence if their income does not exceed either \$39,865 or \$47,826 depending on whether minor children, or children with total and permanent disabilities reside in the household. (Lower income limit applies to households with no children.) As amended by Senate MABS, the Strike-Everything-Amendment to SB 1365 would remove this income limit, beginning in Tax Year 2027.

## Estimated Impact

We estimate that the bill would result in a net General Fund savings of \$(661,000) beginning in FY 2028. The savings is primarily attributable to lower Homeowner's Rebate expenses for the K-12 Basic State Aid formula, as the veterans qualifying for the expanded exemption under the bill would no longer be liable for the property taxes upon which the rebate is based. The bill would also reduce the property tax collections of local governments.

## Analysis

Our estimate assumes the following:

- 1) Based on our analysis of [HB 2672](#) from the 2025 Regular Session, we estimate that the total amount of Net Assessed Value (NAV) that is exempt from property tax under the current program for disabled veterans is \$433.8 million.
- 2) This estimate assumes that a total of 72,998 Class 3 (primary residential) properties statewide qualify for the exemption at an average exemption of \$5,943 per property.
- 3) We estimate that the removal of the income limits under the bill would qualify a total of 119,875 properties statewide for the exemption at an average exemption of \$4,293 per property. This means that the total statewide exemption under the bill would be \$514.7 million.
- 4) There are two main reasons for the reduced average exemption under the bill. First, except for veterans with 100% service-connected disability, the exemption is calculated based on a specified amount (\$4,873 in 2026) multiplied by the veteran's disability rating. Second, our analysis of last year's HB 2672 assumes that a relatively large proportion of veterans with low disability ratings exceed the current income limits and therefore are not eligible for the exemption under current law but would be eligible under the bill.
- 5) This means that while the bill would result in a larger number of parcels qualifying for the exemption, the per parcel exemption for these additional parcels would be lower owing to the manner in which the exemption is calculated [specified dollar amount x disability rating].
- 6) The above analysis means that the bill would result in a statewide NAV loss of \$(80.9) million relative to current law.
- 7) Under statutory Truth-in-Taxation (TNT) requirements, the \$(80.9) million NAV loss would be offset by a corresponding estimated increase of 0.25¢ in the Qualifying Tax Rate (QTR) portion of the K-12 Basic State Aid formula in FY 2028. As a result, there would be no net change in QTR collections from existing property under the bill.
- 8) While aggregate QTR collections for existing properties would remain unchanged, the share of QTR collections from Class 3 properties would be lower compared to current law due to the expansion of the veterans' exemption under the bill. As a result, the state's requirement to pay 50% of residential school district property taxes associated with K-12 Basic State Aid would decline by \$(615,000).
- 9) We also estimate that the Arizona Department of Education's (ADE) General Fund Basic State Aid requirement would be \$(46,000) lower compared to current law due to the 0.25¢ higher QTR rate levied on newly constructed property under the bill.